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Morocco

Market Development Reports

Problems with GSM-102/103 Use in Morocco

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Report Highlights:
Since the grain import liberalization in 1996, use of GSM-103 has decreased sharply in Morocco. (GSM-102 has never been attractive in this market.) A variety of factors have contributed to this decrease in GSM-103 utilization.

Includes PSD changes: No
Includes Trade Matrix: No
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I. Historical trends.

Until fiscal year (FY) 1997, the GSM-103 program was an effective tool to gain and secure market share in Morocco. Since the early 1990s, CCC has allocated $10 million each year for GSM-102, but this has never been used, for reasons given below. Most of the GSM-103 purchases were for wheat, with a little corn in some years. The table below provides data on CCC allocations and program use in Morocco (in millions of dollars):

FY	1995	1996	1997	1998	1999	2000	2001	2002
Allocated-GSM-103	105.0	140.0	90.0	100.0	75.0	50.0	50.0	50.0
Registered-GSM-103	95.7	111.5	18.0	8.3	14.7	6.4	0.0	0.0

There are multiple reasons for this sudden drop in GSM utilization. Most of them have to do with the fact that in 1996 Morocco liberalized its wheat import system. Prior to that date, the National Cereals Office (ONICL) was responsible for importing all grains. With liberalization and a rapid growth in private sector importers, ONICL's share of Moroccan wheat imports is now only one-fourth. Typically the wheat imported by ONICL is designated for making into subsidized flour. (The Moroccan government subsidizes the sale of 1 MMT of flour each year, for lower-income consumers.) Especially in drought years, ONICL also tenders occasionally for barley imports.

II. Reasons for Lack of GSM Utilization

1. ***Market constraints to U.S. imports:*** First of all, there are a number of market constraints that impede private sector purchases of U.S. grains in general. U.S. product often has higher prices, and the local food processing industries are not always sophisticated enough to be willing to pay higher prices for quality. The increasingly stronger U.S. dollar has exacerbated this problem, at the same time increasing the exchange rate risk. In addition, whereas ONICL typically purchases boatloads of 20-30,000 MT, which can be competitively imported from the U.S., many private importers don't have the financial ability to handle large ships or to bear the increased financial risk inherent to the longer shipping times from the United States. They are also less likely to have established relations with U.S. suppliers. Consequently, these small importers are more likely to import small shipments (3-6,000 MT) from neighboring European and ex-USSR countries.

2. ***GSM not attractive enough financially to overcome these constraints:*** When ONICL was the sole buyer of wheat in Morocco, it used to specify in its tenders the type of financing that the government was interested in. In some of their tenders, ONICL specified explicitly that only GSM-103 could be used, which forced Moroccan bidders to offer only U.S. wheat. The importers paid cash even though the wheat was financed under GSM-103 and the GOM reaped all the financing benefits. Currently, with the liberalization, the private sector imports most of the grain and make their own financing and sourcing decisions.

The Ministry of Finance does not pass on the full the benefits of using GSM financing to the importer. The Ministry of Finance sets the interest rate to be used with GSM-103 financing as the prevailing Moroccan short-term prime rate minus one point. (See *III. Conditions under which private importers access GSM-103*.) Importers can generally find more attractive terms commercially without being restricted to import from the U.S.

GSM-102 is even less attractive because the importer must pay the full short-term prime rate. The Ministry of Finance does not subsidize the one percentage point on the interest rate or the insurance fee charged by CCC for using GSM. Finally, the fact that GSM-102 and 103 require that a Letter of Credit (LC) be opened adds further costs to the importer.

3. ***Delays in making GSM-103 operational:*** Because of the need for a Credit Guarantee Assurance (CGA) from the Moroccan government, the Ministry of Finance has a lengthy procedure to comply with local regulations. It must tender each year to select both the Moroccan and the American banks, and must give prior approval to the contract signed between the two banks. (See *IV. Procedure for implementing GSM in Morocco*.) This selection cannot be done by the Ministry of Finance until CCC has officially announced the program, usually after the start of the fiscal year. Thus, in many years, the program is not made available during the fall (October-December) when imports start. A program which is operational only from January means that there will be only 6 months left for the line to be used, since the local wheat crop becomes available, starting in June.

III. Conditions under which private importers access GSM-103:

Once the Moroccan Ministry of Finance selects the Moroccan Bank, it issues a circular that provides the conditions under which the Moroccan private sector can use GSM-103:

1. The importer must open a Letter of Credit (LC) in favor of the U.S. exporter at the bank designated by the Ministry of Finance. This year the agent bank for the Ministry of Finance is the Government’s agricultural bank, Caisse National de Credit Agricole (CNCA).

2. A request for use of GSM-103 is reviewed directly by the agent bank when the difference between the cash price and the financing (GSM-103) price is equal to the insurance fee of 2.67 percent charged by CCC for using GSM-103. If this difference exceeds 2.67 percent, however, the request for financing is reviewed by the Ministry of Finance within three working days.

3. The importer must provide a guaranteed bond in favor of the Ministry of Finance through the CNCA for the total amount of capital plus interest due. The cost of the guaranteed bond will not exceed 0.30 percent per year.

4. A credit will be provided to the importer in dirhams. The credit will cover the FOB and will be for a period of a maximum of six months starting from the date of payment to the exporter.

5. The interest rate charged to the importer for GSM-103 is the prevailing Moroccan short-term prime rate minus 1 point. Currently the prime rate is 7.25 percent, resulting in an interest rate of

6.25 percent for the importers. However, importers generally have access to financing in foreign currencies at much lower rates (for example, 3.5 percent).

6. The Ministry of Finance will support the differential (registration fee) between the cash price and the GSM-103 price.

IV. Procedure for implementing GSM in Morocco

1. FAS/Washington decides on the level of program, usually after start of fiscal year.
2. For GSM-103, AgAttache requests Ministry of Finance to issue a CGA.
3. Ministry of Finance issues CGA (can take up to 2 weeks)
4. CCC issues GSM-103 press release.
5. Ministry of Finance tenders to select local bank to manage GSM-103 on its behalf.
6. Ministry of Finance designates the bank and informs AgAttache's Office.
   (Step 5 and 6 might take up to 4 weeks)
7. Ministry of Finance issues the GSM-103 Circular setting the conditions under which the private sector will have access to the program (might take up to 3 weeks).
8. Ministry of Finance bids to select the American bank.
9. American banks (mostly COBANK and RABOBANK) bid.
10. The Ministry of Finance reviews the terms of the agreement to be signed between the Moroccan bank and selects the American bank (might take up to 4 weeks).
11. Program becomes operational after signing of the agreement by the two banks.

The process for GSM-102 is much simpler and faster, since no CGA is required. USDA announces bank limits based on the most recent financial statements submitted by the banks. The local banks decide on the conditions under which they make GSM-102 available to the private importer. There are currently six Moroccan banks that have been approved to use GSM-102 in Morocco: Banque Commerciale du Maroc (BCM), Credit du Maroc, Banque Marocaine pour le Commerce et l'Industrie (BMCI), Banque Marocaine pour le Commerce Exterieur (BMCE), Banque Populaire (public), WafaBank

V. Comparison between COFACE and GSM

COFACE follows the same procedure as GSM and a circular defining conditions under which importers can have access to the program is published by the Ministry of Finance. As with GSM-103, the bank is selected by the Ministry of Finance. The major differences are:

1. The COFACE program is announced by the French in terms of total tonnage of wheat (and recently barley) to be imported. Typically, France announces a 500,000 MT program that keeps running until it is used up or until another program adds the remaining balance. The program is not interrupted during the heavy purchasing time of the fall.

2. COFACE covers FOB, C&F, or CIF. This is clearly indicated in the Ministry of Finance circular.

3. COFACE does not require an LC. Payments can be done against documents. Consequently, the cost to the importer is smaller. Furthermore, because an LC is not used, the cost of the guaranteed bond to the importer is zero.